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Published for British Information Services by
Her Majesty's Stationery Office, London
Annual subscription including postage and index £20.42

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GOVERNMENT AND ADMINISTRATION

Criminal Justice Bill

The Criminal Justice Bill received its second reading in the House of Commons on 20 January. It proposes substantial changes in the sentencing and treatment of young offenders and abolishes prison sentences for offenders under 21; provides for the partial suspension of prison sentences and makes new arrangements for the early release of offenders from custody; uprates certain fines to take account of inflation; and improves the law governing payment of compensation by offenders.

HOUSE OF COMMONS DEBATE

Home Secretary's Speech

Introducing the second reading of the Criminal Justice Bill (*Hansard*, Vol 16, No 39, cols 294-366), the Home Secretary, Mr William Whitelaw, said that the Bill's primary purpose was to 'provide the courts with more flexible and effective powers for dealing with the diversity of offenders who come before them'. It reflected the Government's strategy of taking account of 'the need for tough sentences in appropriate cases and shorter custodial sentences in others; the importance of effective non-custodial sentences in which the courts have the fullest confidence; and the needs of victims of crime'.

Part I of the Bill, said Mr Whitelaw, gave effect to the proposals published in the Government's White Paper in 1980 (see pp 302-3, 1980) and would make changes in the sentencing structure for young offenders under 21. The courts should have a proper range of powers to enable them to do justice in the circumstances of each case and to provide an apt response to public concern. There had to be a sentencing structure which, while recognising that custody might be essential, secured that it would be used only where necessary. This part of the Bill, therefore, abolished imprisonment for young offenders and also indeterminate sentences of borstal training, replacing them with a more flexible structure of detention centres and youth custody sentences except where a custodial sentence was absolutely necessary.

Turning to the non-custodial provisions of the Bill, Mr Whitelaw mentioned the 'extremely important provision' for strengthening the non-custodial sentences for offenders aged under 17. Supervision by local authority social workers or probation officers could be an appropriate way of dealing with juveniles, even for quite serious offences. The Bill would give the courts new powers under which they would be able, in consultation with the supervisor, to specify what requirements the juvenile would be asked to comply with. Mr Whitelaw said that these changes to the supervision and care orders would impose additional financial burdens on local authorities, but the Government intended to find resources as soon as possible in order to give effect to these new arrangements.

Commenting on the Bill's provision for extending community service orders to 16-year-olds, Mr Whitelaw said that community service had already proved its value for the older age group. The number of orders made had continued to rise since its introduction. He had often voiced the Government's concern about the responsibilities of parents in relation to children who offend. There were at present rather complex provisions that enabled the court to order parents or guardians in certain circumstances to pay fines, compensation or costs awarded against juveniles. The Government was convinced that the law could make a greater contribution. The changes made to these provisions in the Bill were therefore designed to strengthen and clarify the court's powers.

Discussing the type of sentence to be selected by the courts, Mr Whitelaw referred to the statement by the Lord Chief Justice that in all but wholly exceptional circumstances those who committed rape should expect an immediate custodial sentence. But at the same time, for other offences the courts would be offered a more flexible range of non-custodial sentences for use where the justice of the case did not demand that the offender be sent into custody. He also said that he believed that the Bill, by reinforcing the movement towards shorter sentences, would help to relieve the pressures on 'our under-provisioned prison system'.

The various provisions making up the rest of the Bill reflected the Government's commitment to strengthening alternatives to custody and to helping victims of crime, Mr Whitelaw explained. The probation service was the 'major agency for dealing with offenders in the community', and if the service had to continue to respond to this challenge, it was right to allow greater responsibility at the local level. The Bill provided an

opportunity to relax some of the controls over the service which were now exercised by central Government.

Other parts of the Bill dealt with fines, continued Mr Whitelaw. The significance of the fine was clear from the fact that in 1980 fines were imposed on over half of the offenders sentenced in magistrates' courts for indictable offences. The great majority of those sentenced for summary offences were also fined. Fines had to be uprated to take account of inflation, and the fine enforcement machinery had to be improved. A large number of fine maxima were outdated and there were inconsistencies in the penalty structure for summary offences.

The Government attached the greatest importance to the need to pay special attention to the victims of crime, the Home Secretary continued. The Bill provided a timely opportunity to extend and to clarify, in the interests of the victims of crime, the general compensation power in the Powers of Criminal Courts Act 1973. The Government considered it right that, where an offender's means were limited and he could not afford to pay both an appropriate fine and the appropriate compensation, the interests of the victim should prevail over the interests of the Crown and preference be given to the ordering of compensation. The Government also wanted to make it clear that courts could order the compensation that they thought appropriate in a particular case, without the precise value of the victim's loss necessarily having been agreed or proved.

Summing up, Mr Whitelaw said that he believed the Bill offered Parliament the opportunity to enhance the ability of the courts to deal effectively and flexibly with offenders, especially young offenders, who came before them, in a way that should preserve public confidence in the ability of the system to deal firmly and fairly with offenders. The Bill was being brought before the House at a time of increasing public and parliamentary concern about the process of sentencing offenders.

Opposition View

Mr Roy Hattersley, the Opposition spokesman on home affairs, expressed the view that too many people were sent to prison, and that many of those who had to receive custodial sentences were in prison for far too long. The Bill should be judged against the belief that the prison population should be reduced and that the Home Secretary could act to reduce it. The Bill should also be judged against the limited criterion of its effect on the prison service and what was done about the gross overcrowding in the prisons. In the view of the Opposition the Bill's provisions for alternatives to custody and shorter sentences did not go far enough. The Opposition intended to propose amendments which would ensure that the new sentences, techniques, attitudes and proposals were, whenever possible, used to reduce the prison population by reducing the numbers sentenced to custodial sentences and reducing the length of sentences when they were inevitably imposed. Mr Hattersley said that the retention of detention centres for male offenders aged between 14 and 17, the youth custody sentences and, particularly, the introduction of residential care orders, might combine to result in more 14- to 17-year olds passing through some sort of compulsory detention than in the past. That was wholly undesirable, not least because of the known effects of custody on that age group. In 1977, 76 per cent of all youths leaving detention centres and 83 per cent of all youths leaving borstal training were convicted again within two years.

PROVISIONS OF THE BILL

Young Offenders

Part I would introduce a new system of custodial sentencing for young offenders. Imprisonment for offenders aged under 21 and borstal training would be abolished. The new sentences would be determinate; the courts would be able to make detention centre orders from three weeks to four months, and pass youth custody sentences of longer than four months. No court would be able to pass a custodial sentence on a young offender unless it was of the opinion that no other method of dealing with him was appropriate. A young offender would continue to be eligible for parole, and all young offenders would be supervised on release from custody.

The statutory provisions governing attendance centres would be re-enacted with amendments to give the Crown Court power to make an attendance centre order, and to provide for the transfer of orders from one area to another.

The courts would be given new powers to include requirements in a supervision order made on a juvenile offender, directing him to participate in specified activities. They would also be given power to add to a care order a condition removing or restricting, for a period of up to six months, the power of the local authority to allow a juvenile offender to be under the charge and control of a parent, guardian, relative or friend, when such an offender in care commits a further offence for which an adult could be sentenced to imprisonment.

Existing provisions would be strengthened so that when a fine, compensation or costs was awarded against a juvenile offender the court should generally order that the parent or guardian should pay. The maximum amount for which a parent or guardian would be bound over to take proper care and control of a juvenile would be increased from £200 to £500.

Prison Sentences

Part II of the Bill would amend the Criminal Law Act 1977 (see pp 335-7, 1977) by reducing from six to three months the minimum sentence to which partial suspension might be applied and by reducing to 28 days (from one-quarter of the sentence) the minimum period which would have to be spent in custody. Powers would also be taken to vary these minima.

There is also provision for an emergency power to release offenders from custody up to six months early. This would supersede and make permanent the similar power now provided by the

Imprisonment (Temporary Provisions) Act 1980 (see p 341, 1980). Like the present Act, the Bill provides that Parliament would have to approve (in advance, except in cases of urgency) the use of the emergency power by affirmative resolution; however, it would introduce the additional safeguard that the parliamentary order activating the provision would itself have to specify the classes of offender and establishment to be affected and the new release date.

Fines

Parts III and IV, relating respectively to England and Wales and to Scotland, contain provisions which would preserve the effectiveness of the fine as a sentencing option for the courts. Maximum fines for summary offences unaffected by the increases made by the Criminal Law Act 1977 would be uprated to a five-point scale established in connection with that Act. Powers, extending those conveyed by the 1977 Act, would be taken to alter fines by subordinate legislation to take account of changes in the value of money. This part of the Bill also contains provisions dealing with fine enforcement; empowering a magistrates' court to vary an order that a fine should be paid in instalments and providing for the reciprocal execution in England, Wales and Northern Ireland of warrants of commitments for the non-payment of fines.

Other Provisions

Part V contains a number of miscellaneous provisions, including those enabling courts to remand accused persons in their absence for a maximum of three consecutive weekly remands provided that they give their consent and are legally represented; improving the law governing the payment of compensation by offenders; and making community service orders available for juvenile offenders aged 16, with a maximum of 120 hours work.

EXTERNAL AFFAIRS AND DEFENCE

Foreign Affairs

The situations in Poland, Afghanistan, the Middle East and Turkey were discussed by Mr Douglas Hurd, Minister of State at the Foreign and Commonwealth Office, in a statement to the Parliamentary Assembly of the Council of Europe in Strasbourg on 26 January.

POLAND

On the events in Poland (see pp 7-12) Mr Hurd said that the British Government had seen the Polish 'renewal' following the events of August 1980 as one of the most hopeful and significant developments in Eastern Europe since the second world war. Its brutal repression had shown vividly that communism and freedom were incompatible. Like other Western countries, Britain condemned the imposition of martial law and the repressive policies of the military government, and had called on the Polish authorities to lift martial law, release those detained and re-open a genuine dialogue with Solidarity and the Church.

Within Poland the authorities had established a tight grip on the country, though passive resistance probably continued and was most likely to manifest itself in the shipyards, coal mines and large industrial enterprises. Some minor relaxation of the martial law provisions had been announced.

The response in the West had included major policy speeches by President Reagan (see p 10), and a special meeting of European Community foreign ministers (see pp 9-10). NATO foreign ministers had issued a declaration (see pp 10-11) condemning the imposition of martial law, holding the Soviet Union co-responsible for developments in Poland, and warning Poland and the Soviet Union that 'business as usual' was impossible in the present situation.

Events in Poland, Mr Hurd continued, were a tragedy for a long-suffering people, and for all who saw in the renewal the promise of peaceful political change. For the time being conciliation and compromise had fallen victim to brute force.

The story was not yet over, however, said Mr Hurd. 'I simply do not believe that the Polish people will sit quietly under the present repression. Either the repression will change – and by change I do not mean trifling relaxations for presentational purposes – or the repression will be increasingly resisted. In either case there are many events still to come .... As events change, so must our response from Western Europe. It is admittedly difficult to get our response exactly right. This is partly because we are an alliance of free sovereign governments .... But, more than that, the situation itself requires a subtle and flexible response. We want to help the Polish people without shoring up their oppressors. We want to feed the hungry, and we are taking steps to this end through the various humanitarian organisations,[1] but we are not willing to provide fresh money and credit to the present repressive military regime. We want to demonstrate that the Soviet Union cannot avoid taking its share of the responsibility for what has already occurred, while making it clear that we have further measures in reserve in case [it] should intervene with open brutality .... The Polish people are our fellow Europeans. Their tormented history is closely, often tragically, bound up with our own .... Neither censorship nor [radio] jamming nor detention camps can keep Poland out of [its] place at the top of our concerns and anxieties for 1982.' [For British measures affecting Poland and the Soviet Union announced on 5 February, see p 43.]

AFGHANISTAN

With 90,000 Soviet troops continuing to occupy Afghanistan and to prop up a regime unacceptable to the Afghan people, Mr Hurd said, some 2·4 million Afghans had fled to Pakistan, and there were hundreds of thousands more in Iran. About one-sixth of the population had been made refugees. The resisting forces continued to fight throughout the country with courage and an impressive degree of success, considering the huge advantage in military technology possessed by the invaders.

The recent events in Poland, Mr Hurd continued, should not throw Afghanistan into the shadow but serve as a reminder that in Afghanistan, too, military force was being used to suppress a population. In 1981 the European Community had proposed a practical way to a political solution by means of a two-stage conference (see p 201, 1981), and it was necessary to continue to press for a negotiated settlement providing for the withdrawal of Soviet troops and for self-

[1] On 25 January Community foreign ministers agreed to end sales of food to Poland at specially subsidised prices (see p 328, 1981) and to use the funds originally earmarked for such sales to provide humanitarian aid, including food, through non-governmental organisations.

determination for the Afghan people, so that the refugees might return home and Afghanistan take up once more its position as a non-aligned nation free to play its own part in the world.

MIDDLE EAST

The Middle East continued to exercise the foreign ministries of the world, said Mr Hurd, with the focus of attention remaining the Arab-Israeli dispute, fundamentally unresolved despite the progress made through peace between Egypt and Israel. European Community members continued to take a close interest, and believed that the principles set out in the 1980 Venice declaration (see p 202, 1980) represented a viable framework for a comprehensive peace. Peace remained an urgent and vital objective; Europe could not stand back from the process, but had to contribute when and where possible.

Recent developments had served only to complicate further the search for peace, however. The absence of an agreed and positive Arab approach remained an obstacle to progress which, it was to be hoped, might be overcome in 1982. Israel's action in extending Israeli law, jurisdiction and administration to the occupied Syrian territory of the Golan Heights (see p 12) had introduced a further complication. Compatible neither with the spirit nor the letter of the United Nations Security Council resolution 242, the step was bound to make the prospect of peace between Israel and Syria even more remote, and had been universally rejected as contrary to international law and therefore invalid. Mr Hurd hoped, equally, that Syria would confirm its readiness to negotiate a settlement on the Golan with Israel, and in this context to accept Israel's right to live in peace and security.

TURKEY

Mr Hurd told his audience that the British Government had been watching developments in Turkey with concern, and would continue to monitor the situation very closely. [Since the military coup in Turkey in September 1980 (see p 290, 1980) continuing Turkish membership of the Council of Europe has attracted considerable discussion.] General Evren's announcement in December 1981 of a 'target' timetable for the restoration of democracy was welcome as a further indication that the Turkish authorities did intend to honour their commitment to restore democracy. The British Government's view was that 'membership of the Council of Europe is important to us all, including Turkey, and that the return to democracy is likely to be accomplished more rapidly and easily if Turkey remains a member of the Council'.

Poland

Britain has taken several measures affecting Poland and the Soviet Union following the failure of the Polish military regime to lift martial law.

Since its meeting of 11 January (see pp 10-11) the North Atlantic Treaty Organisation has met twice to review the situation in Poland. In the second meeting on 3 February foreign ministers noted with regret that the Polish military regime had not lifted martial law, released detainees or resumed a dialogue with the Church and the trade union Solidarity. In addition, the Soviet Union had not ceased bringing pressure to bear on Poland. Ministers therefore agreed to pursue and, as necessary, strengthen actions along the lines set out in the 11 January declaration.

Details of British measures were given to the House of Commons by the Lord Privy Seal, Mr Humphrey Atkins, on 5 February (*Hansard*, Vol 17, No 51, written answers, cols 221-2). In relation to Poland these include the imposition of travel restrictions on Polish diplomats and certain other official Polish representatives in London and Glasgow; the giving of financial or other assistance to help co-ordinate the efforts of British voluntary and Church agencies providing humanitarian aid to Poland; the placing in abeyance of existing officially guaranteed credits to Poland (subject to safeguarding British firms having legally binding contractual obligations); and the suspension of any new credits for Poland. In addition, Mr Atkins continued, Britain had agreed with other official Western creditors that the question of rescheduling Poland's 1982 official debt should, for the time being, be held in suspense. Britain and the other European Community member states had agreed also not to sell any more Community food at special prices to Poland and that funds for this purpose would be diverted to the provision of humanitarian aid through the voluntary and Church agencies; about £19 million was available from the Community for this purpose. In general, Mr Atkins pointed out, the Government would ensure that its relations with the Polish military regime would reflect the abnormal nature of the present situation.

Turning to the Soviet Union Mr Atkins said that additional restrictions were being imposed on the travel of Soviet officials based in Britain and that the levels of activity under Anglo-Soviet technical co-operation agreements in the fields of medicine and public health, environmental protection, agricultural research and atomic energy were being reduced. In addition, a licensing system had been introduced covering Soviet factory ships transshipping fish caught in British waters, and the Government had given notice of its intention to re-negotiate the terms of the Anglo-Soviet Treaty on Merchant Navigation. Britain was also exploring with its Community partners measures regarding export credit and trade policy with the Soviet Union.

European Community

Britain's contribution to the European Community budget was among the topics discussed at a meeting of the Foreign Affairs Council on 25 January. Government views on British participation in the European Monetary

System were set out during a debate in the House of Lords in January.

Community Budget

Reporting to the House of Lords on 27 January (*Hansard* (*HL*), Vol 426, No 30, cols 953-62), the Foreign and Commonwealth Secretary, Lord Carrington, regretted that agreement had not been possible on the four issues remitted to the Foreign Affairs Council in December by the European Council (see pp 358-9, 1981), namely the Community's milk surplus, Mediterranean agriculture, the share of agriculture within the Community budget, and adjustment of the budget to ensure that no member state was put into an unacceptable financial situation.

Lord Carrington said that 'the main issue preventing agreement was the view of a number of other member states that the refunds to the United Kingdom (see pp 182-3, 1980) should be arbitrarily and automatically reduced over time, regardless of the scale of the problem'. Britain could not accept this. In the longer term, the Government hoped that the development of Community policies, including reform of the Common Agricultural Policy, would lead to a reduction in the size of Britain's budget problem; in such circumstances, Lord Carrington continued, Britain fully accepted that its refunds should be reduced. However, it could not accept a reduction 'totally unrelated to the underlying cause of [its] budgetary imbalance'.

Noting that one or more member states had reservations on other aspects of the matters under discussion, Lord Carrington said that there had been disagreement as to whether Britain's refunds should be for four or five years, with a review. In addition, the formula proposed for dealing with the milk surplus was very weak, while some countries (not including Britain) had reservations about a proposal that agricultural spending should grow less rapidly than the Community's income. While expressing disappointment at the lack of agreement, the Foreign Secretary observed that the issues before the Council were complex and that major national interests were involved. Britain had never thought that it would be easy to find solutions that would enable each country to feel that it had obtained a reasonable deal.

Answering questions, Lord Carrington said that the budgetary imbalance existed because of the small part played by agriculture in the British economy. Britain feared that the guidelines before the Council were very weak in that they would not mean that less money would be spent on agriculture and more on other things. If that were so, the underlying budgetary problem would not be solved.

European Monetary System

Speaking in a debate on 27 January (*Hansard* (*HL*), Vol 426, No 30, cols 962-93), Lord Cockfield, Minister of State at the Treasury, pointed out that Britain had been a founder member of the European Monetary System (EMS) when it was launched in 1979 (see p 88, 1979). Some 20 per cent of Britain's official gold and dollar reserves were deposited in the European Monetary Co-operation Fund and the Government participated fully in all discussions on the operation and future development of the System. The issue was whether Britain should join the System's exchange rate mechanism.

Lord Cockfield said that the Bretton Woods system of fixed but variable exchange rates had for 25 years maintained a degree of stability to the great benefit of international trade, and that its breakdown in the 1970s had been the result of rising world inflation, disparities in economic performance and the weakness of the United States dollar. A fixed rate system 'could not have coped with the oil price shocks of the past decade, and the huge increase in the volume of internationally mobile funds, which today [dwarfed] the size of official reserves'. The breakdown of exchange rate stability had also removed a degree of discipline in the conduct of economic affairs. Lord Cockfield continued: 'It is not surprising that in these circumstances people should search diligently for a successor to Bretton Woods and perhaps least surprising of all that the search for the successor should be made within the context of the European Community.' The European Monetary System was a product of the search for more stable world conditions and for lower and more uniform rates of inflation, as well as a step towards European economic convergence and integration. The British Government fully supported 'the aims of promoting an area of greater currency stability within the Community, and the contribution that the EMS and the exchange rate system [could] make towards closer economic convergence and integration in Europe'.

Noting that in 1979 Britain had decided not to join the exchange rate mechanism, Lord Cockfield observed that there was 'a difficult balance of advantages and disadvantages to be weighed up in considering sterling's possible relationship to [it]'. Some of the issues were more technical and complex than was commonly realised.

Issues

Participation in the exchange rate mechanism placed an obligation on governments to ensure that their rates against other currencies within the System remained stable for a reasonable period of time. Britain's economic policy would therefore inevitably become more directly affected by the decisions and policies of its partners. A second implication was that membership of the mechanism would not necessarily be an easy option since the maintenance of a fixed parity – whether inside or outside the System – would often require a restrictive monetary and fiscal stance. Membership would not free Britain from the need to conduct its affairs responsibly and to accept necessary disciplines in fiscal and monetary policy.

Experience had shown, Lord Cockfield continued, that attempts to maintain the exchange rate within agreed bands would have to involve action on interest rates and perhaps fiscal measures as well: 'Sometimes these measures would supplement the stance of the Government's policies to secure low inflation and continued recovery, but on occasions there could be conflicts which could

be very difficult to resolve. There would clearly have been a conflict of this kind . . . in 1979 and 1980 – and also for long periods in 1981.'

Moreover, there were two special factors relating to sterling which differentiated it from most currencies in the System. First, sterling retained its role as a major currency for international trade and finance: 'The sophistication of the banking and financial markets in London make the pound attractive for international funds and particularly susceptible to wide fluctuations in demand in response to changing levels of interest rates abroad and varying expectations of future exchange rates. This sets sterling apart from all other EMS currencies except the deutschmark.' Although experience since 1979 had shown that the exchange rate mechanism could be successful with one such international currency, greater problems could emerge when an attempt was made to link two.

The second factor related to the pound's role as a petro-currency: 'Sterling's exceptional strength in 1980, and the comparative weakness of other EMS currencies, reflected among other factors the market's contrasting view of the effect of higher oil prices on these economies.' Although pressures in the international oil markets had eased and expectations of future price movements reversed, even recent developments in international oil prices had been reflected in sharp, short-term movements in sterling against the other EMS currencies. These special characteristics of sterling did not automatically rule out its participation in the mechanism, but they did add to the complexity of the judgment on this issue.

In conclusion, Lord Cockfield said that, in the light of a careful assessment of all the circumstances, Britain did not feel able to join the exchange rate mechanism at the present time. The Government wanted to wait until conditions were right, both for the System and for Britain. Lord Cockfield gave an assurance that the Government would keep the situation under constant review.

Gibraltar

Following talks between the British and Spanish Governments in London in January, the border between Spain and Gibraltar will be re-opened in April in accordance with the 1980 Lisbon statement. Other subjects discussed included Spanish accession to the North Atlantic Treaty Organisation and to the European Community, and East-West relations.

In a brief communiqué issued on 8 January the British Prime Minister, Mrs Margaret Thatcher, and the Spanish Prime Minister, Señor Leopoldo Calvo Sotelo, said: 'Both Governments have agreed to start on 20 April 1982 the negotiations envisaged in the Lisbon statement with the aim of overcoming all the differences between them on Gibraltar; on the same day direct communications will be re-established as provided for in the Lisbon statement.' Under the statement (see pp 110-11, 1980) Britain and Spain agreed to start negotiations in order to overcome the differences between them on Gibraltar, Britain maintaining its commitment 'to honour the freely and democratically expressed wishes of the people of Gibraltar', and Spain reaffirming its position on the 're-establishment of the territorial integrity of Spain' and its intention to safeguard fully the interests of the Gibraltarians.

Reporting to the House of Commons on 19 January (*Hansard*, Vol 16, No 39, written answers, cols 113-15), the Lord Privy Seal, Mr Humphrey Atkins, said that the British side had confirmed that the border between Gibraltar and Spain would remain open 24 hours a day and that Spaniards would have the right to stay overnight; in addition Spanish workers in Gibraltar would have equality with other non-European Community nationals regarding employment, social security, salaries and the right to join trade unions. The Spanish Government had assured Britain that there would be 'direct communication by both vehicles and pedestrians' and that there would be 'no special governmental restrictions on maritime and air communications'. Mr Atkins continued: 'The issue of flights to and from Gibraltar will be dealt with in the framework of the 1950 Anglo-Spanish air services agreement without any extraneous restrictions. Furthermore, early practical steps will be taken in the interests of air safety to adjust the application of the Spanish prohibited airspace in such a way as not to impede the safe and effective use of Gibraltar airport.' The British Government believed that the implementation of the Lisbon statement would open a new and hopeful chapter in relations between Britain and Spain, and maintained fully its commitment 'to honour the freely and democratically expressed wishes of the people of Gibraltar as set out in the preamble to the Gibraltar constitution'.

Other Issues

On Spain's admittance to the North Atlantic Treaty Organisation Mr Atkins expressed Britain's unconditional support and said that the Government would 'complete as soon as possible the procedures necessary for the acceptance of the protocol to the North Atlantic Treaty inviting Spain to join NATO'. [The protocol was agreed by the NATO Council on 10 December 1981 and is subject to ratification by the 15 member states. The text was laid before the House of Commons on 18 January.]

Mr Atkins said that Britain warmly welcomed the prospect of Spain's entry to the European Community and the two Prime Ministers had had a wide-ranging discussion about the accession negotiations. Other issues discussed included the situation in Poland and East-West relations.

ECONOMIC AND SCIENTIFIC AFFAIRS

Oil and Gas (Enterprise) Bill

A Bill proposing changes in the operations of the British National Oil Corporation (BNOC) and the British Gas Corporation (BGC) received a second reading in the House of Commons on 19 January. It would enable the Government to sell shares in the oil production business of BNOC and to establish a new financial structure for the corporation, and it would provide for the disposal of assets held by BGC and permit competition in the supply of gas.

The Bill, the main provisions of which were announced in a parliamentary answer in October 1981 (see pp 340-1, 1981) received its second reading by 300 votes to 247, a Government majority of 53 (*Hansard*, Vol 16, No 38, cols 169-252).

Opening the debate, the Secretary of State for Energy, Mr Nigel Lawson, said that the Bill would be a landmark in the history of national policy towards Britain's energy resources in the North Sea.

British National Oil Corporation

Mr Lawson gave three reasons why the Government believed that the oil exploration and production interests of BNOC should be part of the private sector of the economy. First, the successful development of Britain's North Sea resources had been overwhelmingly the achievement of private enterprise and no industrial corporation should be owned and controlled by the State unless there was a positive and specific reason for such an arrangement. Britain's vital strategic and other national interests were fully safeguarded by the complex statutory framework of regulatory controls, participation agreements and taxation, all of which remained, and would remain, fully in force. Duplication by the State of the activities of the oil companies in the production of oil added nothing to Britain's security of supply or to any other national interest. Secondly, privatisation would be in the best interests of BNOC itself. It had been in existence for six years and had an oil-producing business with considerable expertise and potential. After a period of consolidation, it was rightly looking to expand. 'This calls for the freedom to seize opportunities as and when they arise, for investment and the spirit of enterprise. While the business remains in the state sector, its activities will inevitably be subject to the politicisation and to the constraints that that entails. Its financial requirements, which will not for ever remain within the size of its own internally generated resources, must compete with other claims on the public purse and the spirit of enterprise will in time be stunted'. Thirdly, the Government believed that the British people should have a much better opportunity to share directly in the country's oil wealth; symbolic ownership of BNOC as a state corporation was in no sense a satisfactory substitute. Mr Lawson hoped that share ownership in the new company would spread as widely as possible, and that the management of BNOC would take advantage of the special provisions for employees' share schemes in the Bill.

Mr Lawson said that BNOC, as at present constituted, conducted essentially two forms of business: the production of oil, and trading in oil – based on the network of participation agreements. The Government's intention was to leave the trading business with the Corporation but to transfer the entire oil-producing business to a subsidiary – to be named Britoil – formed under the Companies Acts for that purpose. Mr Lawson had asked that Britoil be registered in Scotland. The Bill would enable the Government to take possession of BNOC's shares in Britoil as soon as re-organisation of the Corporation's assets was complete. While the Government's initial aim was to sell 51 per cent of the shares, the Bill would keep open the way for a further sale from its shareholding at a future date, when the Government of the day decided that it was in the national interest to do so. The precise timing of the sale remained subject to market conditions, but Mr Lawson hoped that it would take place before the end of the year. After the sale of 51 per cent of the shares, Britoil would then operate as a normal private sector company. The Government did not intend to control the company or to use its rights as a shareholder to intervene in the company's commercial decisions. It would, however, retain special rights in the articles of association to prevent any unacceptable change in the future control of the company; and except in these circumstances, it did not expect to vote its shareholding in opposition to resolutions supported by a majority of the board. Moreover, it intended that there should be two government directors on the board of Britoil for as long as the size of the Government's shareholding warranted

this. The Government would naturally want Britoil, like any other oil company, to enter into a participation agreement with BNOC covering its existing licence interests, and the terms of this agreement would be settled well before the sale of shares.

British Gas Corporation

The Bill provides for the disposal of BGC assets and the breaking of the Corporation's monopoly position in the purchase and supply of gas in Britain. In the first instance, Mr Lawson said, the Government intended to use its disposal powers to privatise the Corporation's substantial investment in North Sea oil. Breaking the Corporation's statutory monopoly was a more important provision, however. BGC would still retain its statutory monopoly, but only within the market it had a statutory obligation to supply: that is, all consumers (including the great majority of domestic consumers) whose premises took less than 25,000 therms (26·4 gigajoules) a year and were no more than 25 yards (23 metres) from a gas main. Though the Secretary of State's consent would be required for the supply of gas in the case of consumers whose premises took less than 1 million therms a year, Mr Lawson said he would envisage granting such consent in all cases where he was satisfied that the safety arrangements proposed were adequate. In the case of consumers whose premises took over 1 million therms a year – who represented roughly three-quarters of industrial and commercial sales of gas – freedom to compete for their custom would be absolute. In order to make the introduction of competition in the supply of gas effective, the Bill also made provision for effective private sector access to BGC's pipeline network. As was customary with common carrier arrangements, there would be a right of appeal – in this case, at least in the early years, to the Department of Energy – against any refusal by BGC to carry private sector gas on the grounds of cost, inadequate capacity, or the terms quoted by the Corporation for the carriage of gas.

In response to the allegation that the effect of introducing competition into the gas market would be to increase prices, Mr Lawson claimed that competition here, as elsewhere, would tend to reduce prices below what they would otherwise have been, both by stimulating efficiency and by encouraging the provision of new and increased sources of supply. To the allegation that the Bill would allow Britain's gas resources to be depleted at an excessive rate, Mr Lawson said that the Government would retain the power to impose a depletion policy should it seem warranted, but that, in general, market forces would provide a far more reliable guide to the optimum rate of depletion than central planning by a statutory monopoly.

Safety and Miscellaneous Provisions

The Bill would also strengthen existing legislation relating to the safety of oil and gas installations, particularly with regard to offshore safety, and clarify certain other legislation relating to, for example, financial provisions, taxation and participation agreements.

Opposition Views

The Opposition spokesman on energy policy, Mr Merlyn Rees, put forward its view that the control and ownership of oil and gas had to remain with the nation. He questioned the form in which the Bill had been presented to the House, and considered that more information on all its sections was needed for the committee stage. He singled out the need for a clearer picture of the Bill's provisions regarding, for example, the health and safety of offshore workers, the safety of private sector gas pipelines, the willingness of private companies to develop marginal oil fields, and the accountability to Parliament of the Secretary of State in the exercise of the powers given to him in the Bill.

Conclusion

Winding up the debate, the Minister of State for Energy, Mr Hamish Gray, said that during the committee stage the Government would continue to make information available as fully as possible and hoped to co-operate with the Opposition in this.

Coal Industry Bill

A Bill to raise the borrowing limit of the National Coal Board (NCB) and adjust the Board's deficit and operating grant arrangements, including the payment of social grants and payments to redundant mineworkers, received an unopposed second reading in the House of Commons on 2 February.

Opening the debate (*Hansard*, Vol 17, No 48, cols 131-208), the Under-Secretary of State for Energy, Mr John Moore, said that the debate provided an opportunity to set out the reasoning behind the Government's commitment to the coal industry and to put on record how it saw the future for the industry in the light of developments since 1974 (under the 'Plan for Coal'; see pp 435-6, 1974, and 125-6, 1977). This was the second Bill providing for government financial support to the coal industry in the current Parliament; the first (see pp 222-3, 1980) provided for support on the basis of a financial objective of returning to profit on an historic cost basis, after the payment of interest and social grants, from 1983-84 onwards.

Mr Moore explained that the 'Plan for Coal' was an ambitious 10-year programme for the expansion of the industry, to meet an expected growth in demand for energy and coal. The need to diversify sources of energy supply, to make the optimum use of indigenous resources and to conserve energy, was as clear today as ever – a need recognised by Western leaders at the Venice summit in 1980 (see pp 213-14, 1980). However, the industry had to adjust its plans and programmes and adapt itself to stay competitive in a changing energy scene. The expected growth in demand for coal and improvement in its competi-

tive position consequent upon continually rising oil prices, and the improvements in productivity and progressive restructuring of capacity envisaged in the Plan, had not been realised to the extent that had been hoped. It was therefore right – and inevitable – that the industry's plans and progress should be reappraised. The world-wide economic recession had been felt in reduced demand for energy; total energy demand in Britain fell by 9 per cent in the period from the 1979-80 financial year to the third quarter of 1981.

The NCB had been able to make good the drop in home sales during 1980-81 only by vigorous and enterprising action to increase exports. In the industrial market, the recession had made manufacturers less ready to switch from oil-fired to coal-fired boilers, hence reducing the number of new customers for coal. (A 'pump-priming' scheme for grants to assist boiler conversions was announced in the 1981-82 Budget; see p 101, 1981.) In the electricity coal market, the NCB had been hit by the general depression in demand for electricity, which was down 3·5 per cent from a year ago. However, despite all this, output of coal per man-shift had risen from 2·24 tonnes in 1978-79 to 2·32 in 1980-81; and the indications were that it would rise by a further 3·5 per cent in 1981-82. Moreover, absenteeism was falling sharply: from 17·1 per cent in 1979-80, it had been reduced to 12·4 per cent in 1980-81 and was currently (in 1981-82) running at 11 per cent – a 40-year record low. Output had also been rising: from 121·5 million tonnes in 1978-79 to an estimated 124 million tonnes in 1981-82, without adverse effects on the standard of safety – the number of mining fatalities had fallen to a record low of 35 in 1981. However, despite such commendable efforts to increase efficiency, the industry was producing more coal than its customers demanded, and at too high a price. These trends had to be reversed if the industry was to achieve its full potential.

Mr Moore reaffirmed the Government's belief that Britain's coal industry could have a secure and prosperous future. Coal was still Britain's greatest single natural resource and the Government's estimates of reserves – equivalent to last about three centuries at the current rate of consumption – had not changed, nor had its long-term analysis of the potential of coal. It still believed that coal would have a central place in Britain's longer-term energy picture and that the industry would have a good prospect of being able to expand its existing markets and to win new markets on its own commercial merits. 'In an energy-hungry world, coal's value grows and grows. Unlike nuclear power, which is a one-use fuel – it can be used only for electricity generation – coal is a multi-use fuel. It is the dominant source for electricity generation – some 80 per cent of Britain's electricity at present comes from coal – and this relative dominance will continue. But coal's potential goes way beyond this: its future lies in its use as fuel for industry, as [a source for] petrochemical feedstock, as [a source for] substitute natural gas, and in the longer term, potentially as a source of liquefied petroleum', Mr Moore said. The Government believed that the industry could win new markets which had a wider role for coal, and that was why it was willing to commit large sums in financial support. Moreover, the Government felt it right to continue to support the industry as it worked out its strategies to deal with the problems and uncertainties in terms of economic developments both in Britain and in the world at large. Although the long-term objective remained an independent, self-sufficient coal industry, the Bill proposed an increase in the NCB's borrowing powers to give it access to the funds it needed to continue operations and capital investment, and enabled the Secretary of State to continue providing deficit grants to support it until the end of 1983-84.

Detailed Provisions

Clause 1 of the Bill would provide for an increase in the borrowing powers of the NCB and its wholly owned subsidiaries from the present limit of £4,200 million to a new limit of £4,500 million, which may be increased by Order in Parliament to £5,000 million. Clause 2 would extend the period under which the Secretary of State can pay deficit grant to the Board, from the end of 1982-83 to the end of 1983-84, and also increase the total limit on deficit and other operating grants from the present £590 million to £1,000 million, which may be increased by Order to £1,750 million. (This increase is necessary both to cover the increase in grant in respect of the current financial year, and to provide for continuing support in the next two years.)

The second part of the Bill, clauses 3 and 4, would improve the pension and redundancy schemes for mineworkers.

International Comparisons of Taxes and Social Security Contributions

Britain was in a middle-ranking position – seventh out of 14 countries – in 1979 in the proportion of gross national product taken up by taxes and social security contributions (40 per cent). If social security contributions are omitted and only taxes included Britain was in sixth position with 34 per cent.

The December 1981 issue of *Economic Trends*[1] contains an article on international comparisons of taxes and social security contributions in 18 member countries of the Organisation for Economic Co-operation and Development (OECD) from 1970 to 1979 (although complete data for 1979 are not available for all 18 countries).

Taxes and Social Security Contributions in Relation to National Product

Taxes and social security contributions accounted for 40 per cent of gross national product (GNP) at

[1]HMSO, £8·50. ISBN 0 11 726352 4.

factor cost in Britain in 1979, putting Britain in seventh place out of 14 countries (see Table 1). In 1970 Britain had been fourth highest with 43 per cent. Only in Britain and Canada was the proportion lower in 1979 than in 1970. In Britain it fell steadily between 1970 and 1973, rose in 1974 and 1975 and has remained at about 40 per cent up to 1979.

If social security contributions are excluded, taxes as a proportion of GNP at factor cost fell in Britain from 37 per cent in 1970 to 34 per cent in 1979 (see Table 2). Of the same 14 countries Britain occupied second place in 1970 and sixth in 1979.

For 17 countries estimates for 1979 and preliminary estimates for 1980 are given of total tax revenue and social security contributions as a percentage of gross domestic product at market prices. Although for Britain the proportion rose between these years from 34 per cent to nearly 36 per cent, Britain remained in tenth place.

Composition of Taxes and Social Security Contributions

The proportion of revenue derived from taxes on household income was 31 per cent in 1979 compared with 32 per cent in 1970. The proportion had exceeded 39 per cent in the mid-1970s and, between 1978 and 1979 alone, fell from 34 to 31 per cent with the reductions in income tax made in the 1979 Budget (see pp 196-7, 1979). Britain fell from sixth to seventh place out of 12 countries between 1970 and 1979. Sweden was the only other country in which this proportion was lower in 1979 than in 1970. Australia had the highest proportion (45 per cent) in 1979 and Greece the lowest (13 per cent).

Of the same 12 countries, Britain was one of ten in which the proportion of revenue provided by taxes on corporate income was lower in 1979 than in 1970 (8 per cent compared with 9 per cent, having fallen to 5 per cent in 1976). Britain's ranking rose from fifth to joint fourth (with Switz-

Table 1
Taxes and social security contributions as a percentage of GNP at factor cost

	1970 Percentage	Rank	1979 Percentage	Rank
Norway	48	1	56	1
Sweden	46	2	55	2
Netherlands	44	3	54	3
Belgium	39	7	48	4
France	41	5	47	5
Federal Republic of Germany	39	6	44	6
Britain	43	4	40	7
Finland	36	9	39	8
Italy	30	10	35	9
Canada	37	8	35	10
Australia	28	11	34	11
Greece	28	11	32	12
Switzerland	25	13	31	13
Japan	21	14	27	14

Table 2
Taxes as a percentage of GNP at factor cost

	1970 Percentage	Rank	1979 Percentage	Rank
Norway	37	3	42	1
Sweden	38	1	40	2
Belgium	27	8	34	3
Australia	28	6	34	4
Finland	31	5	34	5
Britain	37	2	34	6
Netherlands	28	7	33	7
Canada	34	4	31	8
Federal Republic of Germany	27	9	29	9
France	26	10	27	10
Greece	21	11	23	11
Switzerland	19	12	22	12
Italy	19	13	21	13
Japan	17	14	19	14

Table 3
Taxes on household income and social security contributions* as percentages of total personal income

	1970 Taxes on household income	Social security contributions	Total	1979 Taxes on household income	Social security contributions	Total
Sweden	23	9	32	23	15	38
Netherlands	12	16	27	13	18	32
Federal Republic of Germany	10	12	22	12†	15†	27†
Belgium	9	11	21	15†	12†	27†
Austria	11	11	22	12‡	13‡	25‡
France	5	14	20	6	18	24
Switzerland	10	7	17	12	10	23
United States	12	7	19	13	9	22
Finland	15	5	20	16	6	22
Italy	4	11	16	8†	12†	20†
Britain	14	6	21	13	7	20
Canada	14	4	18	14	4	18
Spain	1	8	9	4†	12†	16†
Australia	12	—	12	16	—	16
Japan	5	6	11	6	8	15

*Including employers' contributions.
†Data for 1978.
‡Data for 1977.
Note: Differences between totals and the sums of their component parts are due to rounding.

erland). Japan in 1979 had the highest proportion (17 per cent) and Sweden the lowest (2 per cent).

Australia and Britain were joint sixth out of 14 countries in 1970 in the proportion of revenue derived from taxes on expenditure, with 43 per cent. By 1979 the proportion in Britain had risen to 44 per cent (having recovered from below 36 per cent in the mid-1970s) and Britain had risen to third place. Australia and Britain were the only countries in which this proportion was higher in 1979 than in 1970. In 1979 Greece had the highest proportion (53 per cent) and Switzerland the lowest (23 per cent). Although value added tax (VAT) as a proportion of all taxes on expenditure rose from 23 per cent in 1978 to 30 per cent in 1979 following the increases in VAT made in the 1979 Budget (see p 193, 1979), the proportion in 1979 was still lower in Britain than in the other countries in which VAT was levied.

Of the same 14 countries, only in Belgium was the proportion of revenue provided by social security contributions lower in 1979 than in 1970. In Britain social security contributions accounted for 14 per cent of the total in 1970 and for 17 per cent in 1979. Britain was twelfth in 1970 and eleventh in 1979. France had the highest proportion in 1979 (43 per cent) and, apart from Australia, where these contributions were not payable, Canada the lowest (11 per cent). Employers provided 60 per cent of all social security contributions in Britain in 1979, Britain ranking in the middle of those countries for which a comparison was possible.

Taxes on capital provide a low and, in most of the countries concerned, declining share of total revenue. In Britain they accounted for 0·6 per cent of the total in 1979; in no country did they provide more than 1·8 per cent.

Taxes on Household Income and Social Security Contributions in Relation to Total Personal Income

Taxes on household income and social security contributions accounted for 21 per cent of total personal income in Britain in 1970 and for 20 per cent in 1979 (see Table 3). Britain was the only one of the 15 countries compared in which the proportion declined and Britain's position fell from joint fifth (with Belgium) to eleventh. Sweden had the highest proportion in 1979 (38 per cent) and Japan the lowest (15 per cent). The share of taxes on household income in total personal income fell only in Britain and Canada, while that of social security contributions rose in every country.

Local Government Finance

The abolition of supplementary rates, the protection from loss of central government grant for local authorities keeping within their spending targets and the establishment of an Audit Commission for Local Authorities in England and Wales are the main objectives of the Local Government Finance (No 2) Bill which was given a second reading in the House of Commons on 18 January by 298 votes to 255, a Government majority of 43.[1]

The Local Government Finance (No 2) Bill was presented to the House by the Secretary of State for the Environment, Mr Michael Heseltine, on 16 December 1981. It replaced the Local Government Finance Bill, which would have permitted local

[1]*Hansard*, Vol 16, No 37, cols 48-128.

authorities to levy supplementary rates after the start of a financial year (in the event of the main rates providing insufficient revenue) provided that this was supported in a referendum (see p 307, 1981). Opposition to these proposals had led the Government to withdraw the original Bill. The new Bill is in three parts.

Part I provides for the abolition in England and Wales of supplementary rates and precepts (sums collected by an authority on behalf of another body) with effect from the 1982-83 financial year, making the position analogous to that in Scotland, where they are not permitted. Rates and precepts would have to be made for complete financial years.

Part II amends a section of the Local Government, Planning and Land Act 1980 so as to enable central government to exempt from any general reduction in its grant those local authorities that have made every effort to keep their spending within the Government's guidelines.

Part III allows for the establishment of an Audit Commission for Local Authorities in England and Wales to secure the audit of the accounts of local authorities, at present the responsibility of the District Audit Service, part of the Department of the Environment. Water authorities' accounts would be removed from the scope of the local authority audit and audited in the same way as those of the nationalised industries. Staff of the proposed Commission, a version of which already exists in Scotland, would not be civil servants.

Government View

Opening the debate for the Government, Mr Heseltine said that Part I of the Bill would ensure that there could 'be no repetition of the rash of supplementary rates witnessed in a minority of authorities in 1981-82'. In that year more than 30 local authorities had issued supplementary rates or precepts, far more than ever before. The most unfortunate consequence was for people who found their family budgeting upset by a further increase in rates. The effects on industry and commerce were also harsh.

Parts of local government were determined to scrap the traditional position whereby local government recognised and accepted the right of central government to determine the level of local government expenditure. The situation was at its most severe when local authorities ignored the Government's request for economy and raised their expenditure, financing it by supplementary rates. 'Where there is a clash between the local and national mandate, the national mandate must prevail.'

The abolition of supplementary rates should cause few problems for the vast majority of responsible local authorities. In any case, if, through no fault of its own, an authority found that it urgently needed additional revenue it could seek government approval for special temporary borrowing under the Local Government Act 1972.

Turning to Part II of the Bill, the Secretary of State told the House that he had always recognised that most local authorities co-operated with central government in their expenditure plans. He was grateful to those authorities which had tried hard to meet the Government's objectives on expenditure and he proposed to use the relevant part of the Local Government, Planning and Land Act 1980 to protect those that had kept within their spending targets. Part II could be used to achieve only one objective – a reasonable limit on the overall level of public expenditure.

On Part III of the Bill, Mr Heseltine said that the Advisory Committee on Local Government Audit, which was in existence when the Government took office in 1979, had unanimously recommended the establishment of a commission in England and Wales similar to that created in Scotland in 1975. The commission would undertake comparative studies on economy, efficiency and effectiveness and the auditor would need to be satisfied that local authorities had made proper arrangements to secure value for money. The Government would appoint the chairman and members of the commission but the commission itself would appoint the auditors. The proposal to take away from local authorities the right to appoint auditors, so that audit could be seen to be obviously independent of local government, had led to much opposition. However, the Secretary of State assured the House that local government was not being singled out for especially hostile treatment; very few bodies in the public sector appointed their own auditors while, in the private sector, company auditors were appointed by shareholders rather than by directors.

The Bill was 'an important step in the Government's determination to get better value for money in the public sector and it includes important safeguards designed to protect those authorities that are co-operating with the Government's strategy. It will, by the abolition of supplementary rates, bring to an end the rapidly growing practice of sharp changes in the budgets of local government, with all the hardship and uncertainty that this causes. And the Bill will bring a new impetus to the audit practices of local government while giving to local government for the first time a significant role in the policy direction of audit.'

Opposition Views

Mr Gerald Kaufman, Opposition spokesman on the environment, said that the auditing of local authority expenditure had hitherto been independent of central government but, if the Bill became law, there would be 'a huge commission, up to 17 members strong, all no doubt adequately remunerated'. Establishment of the new body was contrary to the recommendation of the Committee of Inquiry into local government finance (the Layfield Committee – see pp 249-50, 1976) and was also opposed by a number of local government bodies.

Mr Kaufman told the House that the prohibition of supplementary rates would deny local authorities the power to raise additional revenue to cope with unforeseen occurrences such as exceptionally severe weather. On the other hand, local authorities might seek a high initial rate to cover all contingencies.

For the Social Democratic Party, Mr John Cartwright said that the Bill permitted a local authority to exercise its freedom over matters of

expenditure only if it did so in a way which won the approval of the Government. 'Such an approach will force local councils to become the creatures of Whitehall, and I and my colleagues in the Social Democratic Party reject it.'

Mr Stephen Ross, speaking for the Liberal Party, said that there could be excellent reasons for an authority wishing to raise a supplementary rate. It was therefore wrong to remove this right. Local authorities would undoubtedly become overcautious, building up balances to guard against emergencies. The establishment of an Audit Commission was unnecessary; the present system worked well.

Government Reply

Replying for the Government, the Minister for Local Government and Environmental Services, Mr Tom King, dealt with the charge that central government would have arbitrary power in a number of areas covered by the Bill. The fact was that, while central government determined the distribution of grant to local authorities, the level of rates was the responsibility of the authorities.

The new Audit Commission would combine the strengths of the district audit and private sector accountants in making a more effective organisation for local government audit. The Government was concerned about the growth of non-departmental public bodies and had drastically reduced their number. However, it believed that the Audit Commission was the right body for the work it had to do; a body separate from government and composed only of chartered accountants or professional bodies would not be right.

Shorter Note

CORPORATION TAX

A consultative document on corporation tax[1] issued by the Government on 7 January examines a number of criticisms of the existing system of company taxation and considers suggestions for change. It is the outcome of a review announced by the Chancellor of the Exchequer, Sir Geoffrey Howe, in his 1980 Budget speech (see pp 116-17, 1980). In a statement made at the time of publication Sir Geoffrey said that he was very conscious that businesses needed certainty and stability in their tax affairs, not least in present circumstances. The consultative document therefore emphasised that the Government did not wish to propose major change in the structure of corporate taxation until there had been full consultation and then only if this indicated a clear consensus in favour of change. In view of the exploratory nature of the consultative document, no rigid deadline for comment has been set. However, preliminary views, at least, on the main questions are invited by the end of September.

Under the existing system, a company pays corporation tax at a rate of 52 per cent (less for small companies) on all its taxable profits, whether distributed or not. Advance corporation tax is paid on distributed profits, the recipient of any distribution being entitled to a credit against liability to income tax. In 1980-81 the only taxes which yielded more than the £4,650 million raised by corporation tax were income tax and value added tax. However, with the fall in company profitability in recent years, the proportion of total revenue provided by company taxation has declined sharply. In 1967-68 taxes on company income (excluding that attributable to North Sea oil and gas) accounted for 14·8 per cent of central government tax receipts, compared with an estimated 4·8 per cent in 1981-82.

Among issues covered are the question of whether companies should be taxed at all and suggestions for radical structural change in corporation tax.

On the first point, the consultative document refers to the argument of some commentators that incorporation merely provides a convenient means by which shareholders can invest in a business. It is also said that, although a company may be a separate legal entity, the impact of company taxation is only on those individuals connected with it, such as shareholders, employees, customers and suppliers. If companies were not taxed, shareholders would continue to be taxed on dividends and interest and on capital gains arising from retained profits. It has even been argued that company profits (net of interest) would be adequately taxed by taxing dividends alone. On the other hand, there are practical difficulties of replacing the substantial revenue raised by corporation tax and the elimination of the tax would also lead to large windfall gains for shareholders.

On the second point, the consultative document considers whether the structure of company taxation should continue to be based on commercial profits. It discusses various alternatives, such as a system based on commercial accounts, adjusted for the effects of inflation, and one based on the flow of funds.

[1] *Corporation Tax*. Cmnd 8456. HMSO, £7·10. ISBN 0 10 184560 X. For background information on corporation tax see *A Short Guide to Taxes in Britain*, COI, No 24/81.

SOCIAL AND CULTURAL AFFAIRS

Racial Disadvantage: Government Views

In its reply to the report of the Home Affairs Committee of the House of Commons on racial disadvantage[1] the Government has reaffirmed its commitment to full equality of opportunity for all citizens in Britain's multi-racial society, irrespective of colour, race or religion. It outlines its policies, refers to some of the measures being taken to combat disadvantage, and comments upon each of the Committee's recommendations.

A minister in the Department of the Environment has been given responsibility for matters concerned with race relations that fall within the Department's sphere of interests.

The Government says it largely agrees with the Committee's analysis of the factors that go to make up racial disadvantage. The Committee's inquiry 'was undertaken against a background of concern at the state of race relations in the United Kingdom'. This concern was heightened by the disturbances in Brixton in April 1981 (see p 152, 1981) and in Toxteth and other inner city areas later in the year (see pp 241-4, 1981). Although these disturbances were not race riots, Lord Scarman's report (see pp 373-8, 1981) had emphasised the extent to which racial disadvantage had contributed to their underlying causes.

Principle of Equality

Members of the ethnic communities in Britain should receive the same consideration, have the same sense of security, and show the same sense of responsibility, as any other citizen, says the Government. The Home Secretary's statements in the House of Commons following the publication of Lord Scarman's report and in the subsequent debate on that report (see pp 31-2), and his foreword to the report of the Home Office inquiry into racial attacks (see p 380, 1981), have underlined this principle. The Government has repeatedly emphasised that it is wholly committed to a multi-racial society in which there is full equality of opportunity irrespective of colour, race or religion.

[1]*Racial Disadvantage*. The Government Reply to the Fifth Report from the Home Affairs Committee, Session 1980-81, HC 424. Cmnd 8476. HMSO, £2·65. ISBN 0 10 184760 2.

Members of the ethnic communities born and settled in Britain are part of its future. They are entitled to the same respect as any other citizen. The recognition and acceptance of this fact by all members of society are essential not only to the development and maintenance of good race relations but also to the future well-being of the country. Members of the ethnic minorities undoubtedly have an important part to play: they represent an important resource of talent but their full potential can only be realised within a society free from prejudice and discrimination.

Racial Disadvantage

The Government's reply goes on to say that, at present, the circumstances of many members of the ethnic minority communities are less fortunate than those of the majority of the population. To a disproportionate extent they live in areas which suffer from problems of urban decay; they experience higher levels of unemployment; and their children more often fail to do well at school. They experience the deprivations of the poorer sections of the white community, but to a greater extent. This is due to a variety of factors: newness, cultural differences, demographic factors (the younger age structure and young people in general suffering disproportionately during a recession) and racial discrimination – which is difficult to prove but remains a factor.

Racial disadvantage raises particularly difficult and complex issues for the education service. The Government is determined to face these issues but they involve local education authorities and teachers as well as local communities. The Government has therefore sought the views of a wide range of interests about the Committee's recommendations and about those of the first report of the Committee of Inquiry into the Education of Children from Ethnic Minority Groups (see p 212, 1981). The Government's response to both reports will be made in the early part of 1982 in the light of comments received. By promoting research and discussion the Government says it has indicated its concern for the education of ethnic minorities. The activities of Her Majesty's Inspectors of Schools will continue to contribute to a deeper understanding of the issues.

Relevant statistical evidence about the extent of racial disadvantage was collated in the recent Home Office study *Ethnic Minorities in Britain* (see pp 279-81, 1981) which examines trends in the

position of ethnic minorities over the last 15-20 years. While the study shows that the minorities continue to experience disadvantage it does not paint an entirely gloomy picture. It shows that over this period there have been important absolute advances in the fields of housing and employment; the West Indian and Asian minorities do not constitute a coherent group barred from all avenues of social progress in society.

Monitoring and Research

The Government accepts that in order to measure future trends and to assess more accurately the extent of racial disadvantage there must be further monitoring of the social and economic position of minority groups. The concern among these groups about the possible misuse of information is appreciated but it must be recognised that the availability of such information is also to their advantage; it is only in the light of such information that appropriate steps can be taken to remedy racial disadvantage. The Home Secretary has already announced that the Government has accepted the Committee's recommendation in support of ethnic monitoring in the Civil Service (see p 32 and below).

The Committee makes frequent reference to the 1974 study on racial disadvantage carried out by Political and Economic Planning (PEP) but there have been many important social and economic changes since that took place. The Government will continue to sponsor research in areas where racial disadvantage may exist. In particular, a number of government departments are sponsoring jointly with outside bodies a survey by the Policy Studies Institute, to take place in 1982, which will update the 1974 PEP study.

Combating Disadvantage

The Government considers that the needs of the ethnic minorities should be met from the main spending programmes of government departments rather than from special measures devoted exclusively to these needs. It is clearly important that the main spending programmes of central and local government should take full account of the needs of ethnic minorities.

Where the needs of the minorities are different from or greater than those of the majority population, special measures may, however, be called for. In public discussion of such measures, concern is frequently expressed that to follow this course would be to give members of the ethnic minorities an unfair advantage over the rest of the population. The Government accepts that measures that had this effect would be undesirable. It believes, however, that if the aim of equality of opportunity for all members of society is to be achieved, special help will often be needed for those who start from a position of comparative disadvantage. One way in which the Government already recognises this need is through grants to local authorities under section 11 of the Local Government Act 1966 (see below). The Urban Programme is also of particular benefit to the ethnic minorities, not only as a result of projects designed to help them specifically but also because nearly 40 per cent of them live in 'partnership' or 'programme' authority areas where special help is being concentrated.

The Government says that its response to the particular recommendations of the Committee reflects its belief that its policies must take proper account of the needs of members of ethnic minority communities. Because they are part of society as a whole, however, their needs are affected by the economic well-being of the whole community. An over-riding objective of the Government is to create a stronger and more prosperous economy where new real jobs are created, existing jobs flourish and unemployment falls. This is the most potent means of combating racial disadvantage.

OBSERVATIONS ON THE COMMITTEE'S RECOMMENDATIONS

In an annexe to the report the Government considers and comments upon each of the recommendations of the Home Affairs Committee. These cover matters relating to government departments, to local authorities, community relations councils and the police. The issues on which the Government agrees that immediate action should be taken include the following.

Section 11 Grants

The report gives further details of changes to be made in the arrangements for paying grants under section 11 of the Local Government Act 1966 to local authorities with substantial numbers of Commonwealth immigrants in their area. The effect will be to make the arrangements more relevant to present-day needs and to overcome some of the anomalies in their operation. Local authorities will be encouraged to consult the local Commonwealth immigrant community or the local community relations council before submitting applications for grant. [In a debate in the House of Lords on 4 February on Lord Scarman's report, the Parliamentary Under-Secretary of State at the Home Office, Lord Belstead, said that these grants now amounted to over £50 million a year.]

Urban Programme

The Department of the Environment will draw the attention of partnership and programme authorities under the Urban Programme to the Committee's recommendation that in selecting projects authorities should be aware of their responsibilities to the ethnic minorities. The Government agrees that they should at least consult local community relations councils or councils for voluntary service when selecting projects. An increase in Urban Programme resources from £210 million in 1981-82 to £270 million in 1982-83 has been announced.

Health and Social Security

The Government accepts the recommendation that the problems of elderly members of the ethnic minorities should be kept under review and is considering how this should be done. The Department of Health and Social Security is also

drawing the attention of the hospital authorities to the recommendation that screening for sickle cell disease (a disorder of the blood which mainly affects people of African and West Indian origin) should be more widely available in high risk areas.

Monitoring in the Civil Service

The Civil Service has long had an equal opportunities policy. However, the experimental census of the ethnic composition of some non-industrial grades in a limited area would enable a sound statistical method for monitoring to be established. The limited personnel management resources would be used to review procedures where the potential hazards to fairness are greatest.

Equality in Employment

In response to recommendations concerning direct or indirect discrimination in employment and apprenticeships the Government points out that the Commission for Racial Equality has recently submitted, for consideration by the Secretary of State for Employment, a draft code of practice for the elimination of discrimination and the promotion of equality of opportunity in employment. This covers the responsibilities of employers, individual employees, trade unions and employment agencies.

Police

The Government agrees with the Committee and shares its concern that recruitment to the police from the ethnic minorities remains disappointingly low despite the efforts that have been made locally and nationally. It accepts that recruitment campaigns should continue. Because otherwise suitable candidates who fail the entrance test appear to have greatest difficulty with the written English tests the Home Office is consulting the police on the possibility of providing special English courses for candidates with an imperfect knowledge of the language.

MINISTERIAL RESPONSIBILITY

It was announced on 11 February that Sir George Young, Parliamentary Under-Secretary of State in the Department of the Environment, is to take special responsibility for matters concerned with race relations in the Department of the Environment's field of activity. These include the Urban Programme, aspects of housing policy and other local authority programmes. Particular importance will be attached to ensuring that the views of ethnic minorities are taken into account when policies are being formulated. Mr Timothy Raison, Minister of State at the Home Office, already has specific responsibilities in the field of race relations.

DOCUMENTATION

Government and Administration

Third Report on the British North American Acts: The Role of Parliament. First Report from the House of Commons Foreign Affairs Committee, Session 1981-82. HMSO, £2·45. ISBN 0 10 212882 0.

Bicentenary of the Office of Foreign Secretary. COI, No 142/82.

Racial Disadvantage. The Government Reply to the Fifth Report from the Home Affairs Committee, Session 1980-81, HC 424 (see p 53). Cmnd 8476. HMSO, £2·65. ISBN 0 10 184760 2.

Economic and Scientific Affairs

Economic Trends Annual Supplement. 1982 Edition. Brings together long runs, some for over 30 years, of quarterly and annual data for key series of economic statistics. HMSO, £9·50. ISBN 0 11 726353 2.

Corporation Tax (see p 52). Cmnd 8456. HMSO, £7·10. ISBN 0 10 184560 X.

Inland Revenue Statistics 1981. HMSO, £7·95. ISBN 0 11 641252 6.

Public Works Loan Board. 106th Annual Report, 1980-81. HMSO, £2·80. ISBN 0 11 630688 2.

The Hongkong and Shanghai Banking Corporation, Standard Chartered Bank Limited, The Royal Bank of Scotland Group Limited. A Report on the Proposed Mergers. The Monopolies and Mergers Commission recommends that the proposed mergers involving the Royal Bank of Scotland Group should not proceed. A majority of four to two of the investigating team concluded that both of the proposed mergers would have adverse effects on career prospects, initiative and business enterprise in Scotland and would be damaging to the public interest in Britain as a whole. Cmnd 8472. HMSO, £5·45. ISBN 0 10 184720 3.

Review of Investor Protection: a Discussion Document. The document proposes a unified system of regulation to give improved protection to investors. Comments are invited by the end of May. HMSO, £6·60. ISBN 0 11 513540 5.

Department of Commerce (Northern Ireland). Report of the Registrar of Friendly Societies for the year 1980. HMSO, Belfast, £2·70. ISBN 0 337 06137 8.

Agricultural Research Council. Food Research Institute Biennial Report 1979 and 1980. Available from HMSO, £3·83. ISBN 0 7084 0196 1.

British Agriculture. COI, No 137/81.

First Report, National Metrological Co-ordinating Unit. October 1979 to March 1981. The report notes the successful adoption in Great Britain of the average system of weights and measures for packaged goods under the Weights and Measures Act 1979 (see p 121, 1979). Available free from the NMCU, P.O. Box 6, Sell Road, Croydon, Surrey CR9 1LG.

Social and Cultural Affairs

Mathematics Counts. Report of the Committee of Inquiry into the Teaching of Mathematics in Schools, under the Chairmanship of Dr W. H. Cockcroft. Makes recommendations on the teaching of mathematics so that children may be better equipped for further education, employment and adult life in general. HMSO, £5·75. ISBN 0 11 270522 7.

Broadcasting in the Welsh Language and the Implications for Welsh and Non-Welsh Speaking Viewers and Listeners. Contains the observations by the Home Secretary, the Secretary of State for Wales, the British Broadcasting Corporation, the Independent Broadcasting Authority and the Welsh Fourth Channel Authority on the Second Report of the Committee on Welsh Affairs published in July 1981. Cmnd 8469. HMSO, £2·30. ISBN 0 10 184690 8.

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Printed in England by Brown Knight & Truscott Ltd
and Published by
HER MAJESTY'S STATIONERY OFFICE
£1.35 net

Annual subscription including indices and postage £20.42

H2705 Dd 8202844 K8 FEBRUARY/82 1980
ISBN 0 11 726748 1 Vol. 12 No. 2
ISSN 0039—6214